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SUBJECT: CORPORATE PROFITS LOWER, BUT MOST STILL IN THE BLACK

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**¶1.** (SBU) Summary: The economic crisis is starting to hit harder in Saudi Arabia as oil prices remain low, with most companies reporting lower profits in the 4th quarter of 2008, and some reporting losses. Banks and holding companies exposed to bank losses are being hit hardest. Interestingly, car distributors did well in 2008, but expect little growth in 2009. SAMA continues to take action to free up credit with a fifth cut in their key interest rate since early October. End summary.

Banks profit, but less than 2007

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**¶2.** (U) Although Saudi banks were not measurably exposed to the subprime mortgage crisis, their dependence on access to international credit for project finance has hurt their bottom line. Of the 10 largest commercial banks, only Saudi Hollandi bank has reported an increase in 4th quarter profits over 2007, and this largely due to lower than normal profits in late 2007. National Commercial Bank, the country's largest, reported a 4th quarter loss of \$680 million. Two other banks, Saudi Investment Bank and Bank Aljazirah also reported losses, and six reported profits lower by an average of 14 percent.

The global auto industry's one shining light

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**¶3.** (SBU) In contrast to their recent performance in the U.S., American auto companies Ford and General Motors both had record years in the Kingdom. GM's two percent increase in sales in Saudi Arabia during 2008, though not as dramatic as double-digit increases in Syria, the UAE, or Oman, is still significantly better than its performance elsewhere in the world. An executive at a local Ford distributor told Econoff in a recent meeting that thanks to an increase in institutional sales to Aramco and the Saudi government, they expect to report a 65 percent increase in sales in 2008 and a similar number of sales (no growth) in 2009.

Mixed news from parastatals

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**¶4.** (U) Two of Saudi Arabia's parastatals posted dramatically different 4th quarter results. The Saudi Arabian Basic Industries Corporation (SABIC) reported net profits of \$82.9 million, down 95 percent from the 4th quarter 2007. They responded by closing some factories, reducing production elsewhere, and laying off 1,300 employees. On the other hand, Ma'aden, the SAG's mining company, reported a 195 percent increase in annual profits for 2008, more than half of which came during the 4th quarter (\$30.9 million). An

Emirati paper reported that this dramatic increase was largely attributable to hedge contracts on gold.

Kingdom Holdings tanks in the 4th quarter

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¶ 15. (SBU) Prince Alwaleed bin Talal's investment company, Kingdom Holdings, while only the ninth largest firm (by market capitalization) on the Saudi stock exchange, enjoys a public prominence even greater than its position in the financial community. Thus to many it came as a shock when the company reported a \$8.26 billion loss in the 4th quarter of 2008. The company later revised this figure to show a small overall profit after a "re-categorization of some items of its income statement." Due to its exposure to Citigroup, this past quarter is unlikely to be the last in which Talal's company performs poorly.

SAMA makes another rate cut

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¶ 16. (U) The Saudi Arabian Monetary Agency (SAMA) cut their key lending rate to two percent, down from 5.5 percent in early October. This cut came on top of the first report (that Post has seen) suggesting the Saudi economy will actually shrink in 2009 (EFG-Hermes, a Cairo investment bank, has predicted the Saudi economy will shrink by 0.9 percent in 2009). A second gloomy projection followed soon after, with Saudi-American Bank chief economic Howard Handy predicting Saudi GDP could contract by up to 1.5 percent in 2009.

Comment

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¶ 17. (SBU) There are increasing signs of economic turmoil here in the Kingdom. With three major banks posting losses for the 4th quarter, and high profile companies such as Kingdom Holdings suffering dramatic reversals of fortune, it is growing increasingly difficult for Saudi officials to claim their economy is sheltered from the effects of the global economic crisis. Although on occasion we still see such claims in the media, behind closed doors SAG officials seem prepared to confront at least a few quarters of significantly reduced economic growth. They have demonstrated, both through actions by their central bank and through infrastructure investments in their 2009 budget, a commitment to use the surpluses of recent years to smooth any short-term economic hiccups that may emerge (for more on the Saudi 2009 budget, see reftel). End comment.

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